

TOWN OF BETHANY BEACH
AGREED-UPON PROCEDURES ON MUNICIPAL GRANTS
FOR THE YEAR ENDED JUNE 30, 2005

**TOWN OF BETHANY BEACH
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FOR THE YEAR ENDED JUNE 30, 2005**

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Town of Bethany Beach
215 Garfield Parkway
Bethany Beach, Delaware

We have performed the procedures enumerated below, which were agreed to by Town of Bethany Beach and the State of Delaware's Office of the Auditor of Accounts, Department of Homeland Security, and the Office of the State Treasurer, solely to assist you with respect to determining the Town's compliance with Delaware's applicable laws, regulations, financial reporting and the effectiveness of the internal control structure related to the municipal grant funds received for the year ended June 30, 2005 on Page 4. The Town of Bethany Beach's management is responsible for compliance with those requirements. This agreed-upon procedures engagement was performed in accordance with *Government Auditing Standards* (2003) issued by the Comptroller General of the United States and the attestation standards established by the American Institute of Certified Public Accountants that have been incorporated by *Government Auditing Standards* (2003). The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

1. Document understanding of cash disbursement internal control structure over municipal street aid grant funds from discussion with management and report internal control weaknesses.

FINDING NO. 05-1 - During completion of the Town of Bethany Beach's program checklist for the municipal street aid grant, it was noted that their cash internal control structure over municipal street aid grant funds has a weakness due to the fact that a stamp of the Mayor's signature is used by the Town Manager or his administrative assistant for all expenditures with no knowledge by the Mayor until after the checks are mailed and then the Mayor receives a list of the checks written. The Mayor's stamp signature is the only one on the check. Unauthorized expenditures could occur if the Mayor's stamp signature is inappropriately used.

RECOMMENDATION - The Mayor should be aware of the use of his stamp before the checks are mailed by reviewing the invoices himself. A second signature on all checks would strengthen the internal control system, as two people would approve the expenditures of the Town.

TOWN'S PLAN FOR CORRECTIVE ACTION:

"The position of Mayor for the Town of Bethany Beach is part time and unpaid. As such, the Mayor authorizes the Town Manager to manage the day to day affairs of the Town. The Mayor does not have an office in Town Hall and may not be physically present in Town Hall more than a couple hours a month other than during the monthly council meeting."

The Town Council routinely approves contracts of over \$ 10,000 prior to finalization of the agreements. The Town Council, with the Mayor presiding, authorized the Del-Mar-Va Paving contract at the March 19, 2004 Town Council meeting, as noted in the meeting minutes."

TOWN'S PLAN FOR CORRECTIVE ACTION - CONTINUED:

"The Del-Mar-Va Paving invoice was approved by the Public Works Director and the Director of Finance prior to approval by the Town Manager. The Town Manager's assistant only stamps checks at the specific direction of the Town Manager and does not have access to blank checks or the ability to process a check through the accounting system. Our current system of controls insures that no single person can issue and sign a check.

Requiring a second signature on every check, or requiring that the Mayor personally review checks before they are mailed would add an unnecessary delay in outgoing payments. The Mayor's prior approval of the contract and subsequent review of the listing of checks issued has been found sufficient in previous audits."

2. Complete the State of Delaware Auditor of Accounts municipal grants agreed-upon procedure program to determine the Town's compliance with applicable laws, regulations and financial reports related to municipal grant funds received during the year ended June 30, 2005. Detail any instances of noncompliance.

FINDING NO. 05-2 - During completion of the Town of Bethany Beach's program checklist for the municipal street aid grant, it was noted that the Town deposits the municipal street aid funds into the separate bank account, and then reimburses the general fund for all checks that are designated eligible expenditures. In February of 2005, a transfer of funds was made from the municipal street aid account to the general fund. At the time of the transfer, \$ 67,637.80 in expenditures had been paid by the general fund, but the transfer was made for \$ 71,389.89, an excess transfer of \$ 3,752.09. The "Guidelines for Municipal Street Aid Funding" issued by the State of Delaware state that payment must be executed before a reimbursement can occur.

RECOMMENDATION - The Town should implement procedures to ensure payments are executed from the general fund before they are reimbursed from Municipal Street Aid funds. The Town should reimburse the municipal street aid account for \$ 3,752.09.

TOWN'S PLAN FOR CORRECTIVE ACTION:

"One invoice was paid after February 23rd transfer of \$ 71,389.89. This \$ 3,752.09 was a portion of the Conectiv bill for street light electricity used during the month of February. Although the check was not issued until March 17th, the cost had been incurred and the invoice amount known. The transfer was made in February while reconciling grants in preparation for our fiscal year end on March 31st. We will adapt our procedures so that transfers only occur after all related checks are mailed."

FINDING NO. 05-3 - During completion of the Town of Bethany Beach's program checklist for the municipal street aid grant, it was noted that the annual report was not accurately prepared or reviewed [30 Del. C. §5165(b)(2)]. The interest income earned on the municipal street aid funds was understated by \$ 5 on the annual report and the actual total expenditures were understated by \$ 5 for bank charges not recorded on the annual report. Failure to prepare accurate financial reports could result in the loss of grant funding.

RECOMMENDATION - The Town should more carefully prepare and review the amounts on the annual report to ensure an accurate presentation.

TOWN'S PLAN FOR CORRECTIVE ACTION:

"We have implemented your recommendation. Bank statements and monthly reports will be reviewed by another party."

FINDING NO. 05-4 - During completion of the Town of Bethany Beach's program checklist for the municipal street aid grant, it was noted that bids were obtained for a road paving project. The advertisement for the bid proposals ran on Wednesday, March 3 and Friday, March 5. The requirements [29 Del. C. §6923(b)] state that bids shall be published at least once a week for two consecutive weeks. Failure to comply with applicable laws and regulations could result in the loss of grant funding.

RECOMMENDATION - The Town should implement controls to ensure compliance with the applicable laws and regulations regarding procurement with State of Delaware funds.

TOWN'S PLAN FOR CORRECTIVE ACTION:

"It was an oversight that the timing of bid advertisements did not fall in consecutive weeks. The employee has been counseled and provided with the most up to date guidelines for these funds."

FINDING NO. 05-5 - During completion of the Town of Bethany Beach's program checklist for the Police Pension grant, it was noted that the Town did not submit to the State Board of Pension Trustees by April 1, a listing of retired police officers receiving benefits from the Town as of December 31 of the preceding year, excluding those receiving benefits from the State of Delaware County and Municipal Police Pension Plan as required by the Delaware Code [18 Del. C. §709(b)]. The State Board of Pension Trustees has not requested this information from the Town or provided a format for the Town to submit this information to them. Failure to comply could result in the loss of grant funding.

RECOMMENDATION - The Town should provide mandated information regarding retired police officers receiving benefits to the State Board of Pension Trustees by April 1 of each year that the municipality receives a police pension grant in order to comply with the grants' compliance requirements.

TOWN'S PLAN FOR CORRECTIVE ACTION:

"The State Board of Pension Trustees did not request the information noted in the finding on the current year police pension grant application. The Town was unaware of the requirement to submit this information to the State Board of Pension Trustees. The Town will provide information needed as it is requested by the State of Delaware."

3. Note all situations or transactions that could be indicative of fraud, illegal acts, material errors, defalcations, irregularities or gross violations of the grant agreements and abuse or misuse of State funds.

During completion of the program checklist, no fraud, illegal acts and violations of provisions of contracts or grant agreements and abuse or misuse of state funds were noted.

4. Prepare the Town's Schedule of Municipal Grants received during the year ended June 30, 2005.

See Page 4.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on the Town's compliance with Delaware's laws and regulations, financial reporting and the effectiveness of the internal control structure related to municipal grant funds. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information of the Town of Bethany Beach's Management and Council Members, Department of Homeland Security, Office of the State Treasurer and Office of Auditor of Accounts, and is not intended to be and should not be used by anyone other than those specified parties. However, under 29 Del. C. §10002(d), this report is a public record and its distribution is not limited.

Jefferson, Ulan, Doane & Starnes, P.A.

**TOWN OF BETHANY BEACH
SCHEDULE OF MUNICIPAL GRANTS
FOR THE YEAR ENDED JUNE 30, 2005**

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<u>Grants</u>	<u>Amount Received</u>
Municipal Street Aid	\$ 142,779.77
Police Pension	38,222.40
State Aid to Local Law Enforcement	7,736.84
Emergency Illegal Drug Enforcement	5,358.62

See independent accountant's report on applying agreed-upon procedures.